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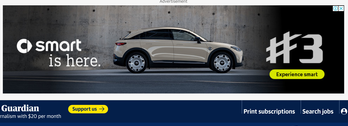

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Vanuatu presidential palace funded by China stirs debt fears

Priyanka Srinivasan
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Vanuatu's presidential palace is the latest in a series of infrastructure projects in the country funded by China. Photograph: Island Sun Pictures

Beijing says no strings attached' to the complex unveiled last month amid wider concerns over loans the Pacific country owes to China

Perched atop Port Vila, Vanuatu's seaside capital, sits a gleaming red and white building, gifted to the Pacific country by China last month. The new presidential palace has a coveted position in town, high on a hill and overlooking the prime minister's office, a building which was similarly renovated thanks to a hefty Chinese donation almost a decade ago.

The multimillion dollar complex is the latest in a long line of gifts and infrastructure projects offered to Vanuatu by Beijing, transforming several towns and villages in the small island nation of just over 300,000 people. They include a suite of new government ministry buildings, the country's parliament house, road construction projects on several islands, the rebuilding of a sports stadium, a new wharf, and the donation of a massive convention centre that often sits empty in the middle of town.

Vanuatu's financial minister, John Salong, whose new Chinese-built ministerial building was handed over to his government with the palace last month, says the projects have been a boon for the developing country, which often struggles to pay for building works itself. The Lowy Institute estimates the presidential palace and new government buildings cost $20m.

"We use diplomacy as a means for us to leverage the resources we have so that we can build institutions that we need," Salong says.

These large constructions have become visible monuments to China's deepening influence in the region, not only as a development partner but also as an emerging political player. Major Chinese-funded works have taken place in almost every Pacific island country, coinciding with an expansion of China's security and policing deals in the region and the strengthening of diplomatic ties between Beijing and Pacific governments.

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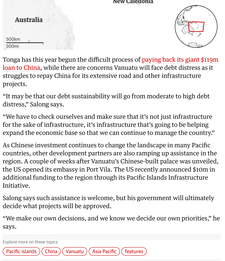
Days after Vanuatu's prime minister, Charlot Salwai, attended the opening of the new presidential palace, he flew to China with a delegation of officials to meet with president Xi Jinping. In a joint statement released after the talks, China said it welcomed Vanuatu's "active participation" in its belt and road initiative, Beijing's multi-billion dollar project to connect the world through a series of infrastructure builds.

"China has provided assistance to Vanuatu with no political strings attached," China's ambassador to Vanuatu, Li Minggang, said in an address broadcast by Chinese state media shortly after the handover of the new palace. The Chinese embassy in Vanuatu did not respond to a request for comment.



Vanuatu prime minister Charlot Salwai and Chinese official Hu Chunhua during an official handover ceremony of the new presidential palace. Photograph: AFP

Yet, some Pacific Islanders have voiced criticism over the proliferation of Chinese-backed infrastructure projects in their countries.

Jean Pascal Wahe, a community leader from the island of Tanna in Vanuatu, says though a Chinese-funded road network has given his people critical access to markets, health services and the local airport, he is also concerned about the more than decade-long presence of the China Civil Engineering Construction Corporation (CCECC) on his island. CCECC is wholly owned by the Chinese government.

Wahe says the CCECC "has now won every other sub-contract for roadworks that weren't even part of the original road project."

China's aid expenditure in the Pacific is dwarfed by other countries, estimated to make up only 9% of total development spending in the region according to the Lowy Institute's Aid Map. In contrast, the aid expenditure by Australia, who remains the region's biggest spender by a significant margin, makes up 40% of total Pacific development income – equivalent to around $1.5bn as of 2021.

But Beijing's investment in prominent infrastructure builds, often unveiled to Pacific governments through lavish ceremonies, has skewed public opinion over the size of China's contributions.

"Australia gives four times as much aid in the Pacific," says Graeme Smith, a senior fellow from the Australian National University who has investigated Chinese aid and infrastructure development throughout the Pacific.

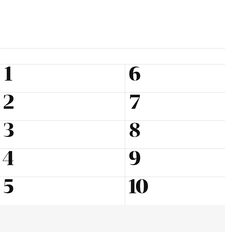
"But the perception in the Pacific, when you do these attitude surveys, people think that China is the main donor, because you have these physical symbols of their gifts."

'Scared about these loans'

Of further concern is the heavy economic burden some of China's infrastructure projects have placed on developing Pacific countries. China is the region's largest lender, and though many of the Pacific's government buildings have been donated as gifts, the majority of its infrastructure builds are made possible by sizeable loans from its Exim Bank.

"I'm scared about these loans and have doubts about how we'll pay it back," says Wahe, who knows the government has taken on a major loan from China to finance the works on his island.

"The project is good, but I keep reminding our leaders that in this world, there's no such thing as a free lunch."



Tonga has this year begun the difficult process of paying back its giant $115m loan to China, while there are concerns Vanuatu will face debt distress as it struggles to repay China for its extensive road and other infrastructure projects.

"It may be that our debt sustainability will go from moderate to high debt distress," Salong says.

"We have to check ourselves and make sure that it's not just infrastructure for the sake of infrastructure, it's infrastructure that's going to be helping expand the economic base so that we can continue to manage the country."

As Chinese investment continues to change the landscape in many Pacific countries, other development partners are also ramping up assistance in the region. A couple of weeks after Vanuatu's Chinese-built palace was unveiled, the US opened its embassy in Port Vila. The US recently announced $10m in additional funding to the region through its Pacific Islands Infrastructure Initiative.

Salong says such assistance is welcome, but his government will ultimately decide what projects will be approved.

"We make our own decisions, and we know we decide our own priorities," he says.

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